

Message Text

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PAGE 01 BUENOS 02310 011724Z

43

ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 EB-11 COME-00 TRSE-00 AID-20 OMB-01 DRC-01

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 5883

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E.O. 11652: N/A

TAGS: ECON, LAB, AR

SUBJ: GOA ECONOMIC POLICY

REF: A. BA 2217; B. BA 4182

1. IN MESSAGE TO NATION ON MAR 27 PRESIDENT PERON ANNOUNCED A SERIES OF ECONOMIC POLICIES AND GOALS, INCLUDING THE WAGE INCREASE DISCUSSED IN REF A. IN HIS ANNOUNCEMENT, HE DESCRIBED THIS AS THE SECOND STEP IN THE PROCESS WHICH BEGAN WITH THE "SOCIAL PACT" RECORDED REF B. THIS NEW "ACT OF NATIONAL COMMITMENT" WAS SIGNED BY GOA AUTHORITIES FOR THE PUBLIC SECTOR BY THE CGT, REPRESENTING LABOR, AND BY THE CGE, WHICH PURPORTS TO REPRESENT BUSINESS. THE KEYNOTE THEMES ARE FAMILIAR: "NATIONAL LIBERATION," "RECONSTRUCTION", AND "REDISTRIBUTION OF INCOME".

2. PERHAPS THE MOST SIGNIFICANT POINT IS THE GENERAL WAGE INCREASE PLUS FRINGE BENEFITS DETAILED IN REF A. THE AVERAGE WAGE INCREASE WILL BE CONSIDERABLY MORE THAN 13 PERCENT BECAUSE OF THE DECLARED MINIMUM INCREASE OF AP\$240 (NOT COUNTING FRINGE BENEFITS). THUS, ALL EMPLOYEES EARNING LESS THAN AP\$1850 PER MONTH WILL BE GETTING AN INCREASE GREATER THAN

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PAGE 02 BUENOS 02310 011724Z

13 PERCENT.

3. ON THE PRICE SIDE, PRICES ARE TO BE ADJUSTED BY THE EXIST-
ING SECTORAL COMMITTEES OF THE NATIONAL COMMISSION ON PRICES,
INCOMES, AND COST OF LIVING. THIS IS SMALL COMFORT TO MANY
FIRMS WHICH HAVE BEEN ATTEMPTING FOR MANY MONTHS TO OBTAIN
APPROVAL FOR PRICE INCREASES WHICH HAVE BEEN GRANTED WITH
GREAT DELAYS, IF AT ALL. ABOUT ONE FOURTH OF THE WAGE IN-
CREASE CANNOT BE PASSED ON IN PRICES BECAUSE THE GOA ATTRIBUTED
THIS PORTION TO AN ALLEGED "GENERAL INCREASE IN PRODUCTIVITY"
AND TO A FURTHER STEP IN THE GOVERNMENT'S POLICY OF INCOME RE-
DISTRIBUTION. THE GOVERNMENT WILL INSTITUTE A SYSTEM OF ADMIN-
ISTERED PRICES FOR THE PRIVATE SECTOR AND WILL COLLECT ALL
INFORMATION ON COSTS, PROFITS, ETC. WHICH MAY BE NECESSARY.
DOMESTIC PRICES ARE TO BE ADJUSTED TO INTERNATIONAL PRICE
LEVELS BY A GRADUAL SUBSTITUTION (BY UNSTATED MEASURES) FOR
THE PRESENT SYSTEM OF IMPORTS WITH SUBSIDIZED EXCHANGE RATES.
(HOWEVER, THE CENTRAL BANK, APPARENTLY NOT OPERATING ON THE SAME
WAVE LENGTH, ABOLISHED ON MAR 28 THE SYSTEM OF SUBSIDIZED
EXCHANGE RATES (SEE SEPTEL). EXPORTS WILL BE PROMOTED
THROUGH ADDITIONAL EXPORT SUBSIDIES OR REBATES.

4. IT WAS ANNOUNCED THAT PRICES OF GOODS AND SERVICES FUR-
NISHED BY GOVERNMENT AGENCIES AND ENTERPRISES WOULD BE RAISED
ON APR 1 AND WOULD NOT BE MODIFIED BEFORE JUN 1, 1975.
HOWEVER ON MAR 28, THE GOA DECREED LARGE PRICE INCREASES FOR
MOST PETROLEUM PRODUCTS, NATURAL GAS AND ELECTRICITY.

5. INTEREST RATES ARE TO BE REDUCED FOR PERSONAL AND MORT-
GAGE LOANS AS WELL AS FOR INTER-COMPANY SALES OF RAW MATERIALS
AND INTERMEDIATE GOODS. SPECIAL CREDIT FACILITIES WILL BE
AVAILABLE FOR PURCHASES OF CONSUMER DURABLES.

6. THE GOA WILL ISSUE AP\$5 BILLION WORTH OF BONDS TO FINANCE
"NATIONAL RECONSTRUCTION AND LIBERATION" AND TO PROMOTE OBJEC-
TIVES OF THREE-YEAR PLAN. THIS IS DESCRIBED AS A SPECIAL "PATRI-
OTIC" LOAN WITH A TWO YEAR GRACE PERIOD AND AMORTIZATION OVER
FOLLOWING THREE YEARS. GOA WILL TAKE MEASURES TO SEE THAT
"THOSE WHO HAVE MOST WEALTH ABSORB GREATER SHARE OF THESE
BONDS". THUS, BOND ISSUE TAKES ON CHARACTERISTICS OF COM-
PULSORY LOAN.

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PAGE 03 BUENOS 02310 011724Z

7. EMBASSY WILL TRANSMIT TEXT AND ADDITIONAL COMMENTS BY AIRGRAM.

8. COMMENT: DESPITE FACT THAT THIS DOCUMENT SPEAKS OF FIXING
PRICES IN SUCH A WAY AS TO PROMOTE PROFITABLE OPERATION OF
PRIVATE BUSINESS, BOTH ARGENTINE AND AMERICAN BUSINESSMEN
WHOM WE HAVE CONSULTED ARE SKEPTICAL IN VIEW OF EXTREME RELUC-
TANCE SHOWN BY MIN OF ECONOMY OVER LAST 8 MONTHS TO GRANT

PRICE INCREASES IN MANY CASES IN FACE OF COMPELLING EVIDENCE THAT COMPANIES INVOLVED WERE LOSING MONEY. THE DOCUMENT, AS A WHOLE, INDICATES THAT THE SQUEEZE WILL CONTINUE TO BE APPLIED HEAVILY TO BIG BUSINESS, WHOSE PRICES ARE EASIER TO CONTROL. THE POLICIES LAID DOWN IN THIS DOCUMENT ARE NOT LIKELY TO ENCOURAGE BUSINESSMEN TO MAKE INVESTMENTS OR TAKE RISKS.

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